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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
LANSING

ANNETTE E. FLOOD
DIRECTOR

May 22, 2014

TO: The Honorable Kevin Cotter, Chair
House Judiciary Committee
Members of the House Judiciary Committee

RE: HB 5558

Last week, during the discussion of House Bill 5558, there were many unfounded and misleading statements made with regard to the ability and willingness of the Department of Insurance and Financial Services (DIFS) to take action to protect consumers from unfair, deceptive and illegal acts or practices.

I would like to set the record straight.

Consumer protection is our primary focus and, in fact, our reason for being. While everything we do relates to protecting the consumer, we also have a staff in the Office of Consumer Services that is dedicated to dealing directly with individuals who have insurance questions or complaints against their insurers or agents. The professionals in this office are diligent and relentless when it comes to resolving problems, something with which I think our licensees would agree.

I've been asked many questions with regard to the fines and other penalties that are available to us when we find wrongdoing. Clearly, the Insurance Code contains fines for noncompliance and, for some violations, we have the ability to take action against a license or authority. We use these tools when necessary and appropriate. However, our primary mission is to make the consumer whole and bring the licensee into compliance.

Since 2000, our staff has handled an average of 5,500 insurance complaints per year, with an average annual recovery for consumers of over \$7 million. These recoveries directly benefit consumers, without the need to pay an attorney.

I'd like to address the comments about DIFS taking very few actions under Chapter 20 of the Code. Looking at how many actions we take under this chapter does not give the full picture of what actually occurs.

Some Chapter 20 violations require DIFS to find a pattern or practice of the illegal act. An action with regard to these violations generally requires the appointment of an independent

hearing officer, which results in delays and extra costs. However, it is not common for several complaints to arrive in connection with the same insurer and the same act or practice.

Generally, individual acts or practices that would be illegal under Chapter 20 are also illegal under other provisions of the Code. Therefore, DIFS' response to individual complaints would likely not be categorized as a Chapter 20 action. However, that does not mean we have not alleged Chapter 20 violations and it does not prevent us from imposing fines, ordering restitution, or licensing sanctions.

As I mentioned above, our goal is to make the consumer whole and stop the non-compliant behavior. Below is just one example of a success in that regard.

We received 34 complaints against an insurer for denied claims and policy rescissions, which is referred to as post-claim underwriting. All the complaints were similar: following receipt of a large claim, the company rescinded the policy back to inception due to misrepresentations made on the application for insurance. With our intervention, the company modified their application and their underwriting practices, and reconsidered the denied claims, resulting in nearly \$100,000 being returned to the consumers.

Please know that, when handling a complaint, if we find that a regulated company or individual has violated the law, even if the matter is resolved in favor of the consumer, the Consumer Services staff will refer the complaint file for further review and possible enforcement action.

Thank you for the opportunity to provide this input to the Committee. We take our charge to protect consumers seriously and I don't want any suggestion to the contrary to be left in anyone's mind.

Sincerely,

A handwritten signature in cursive script, appearing to read "Teri".

Teri L. Morante
Chief Deputy Director